

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

March 5, 2007

Mr. Richard C. Cooke
Cooke Management Company, Inc.
Post Office Box 808
Lake View, South Carolina 29563

Re: AC# 3-MHC-F3 – McCormick Health Care Center

Dear Mr. Cooke:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period July 1, 2002 through June 30, 2003. That report was used to set the rate covering the contract period beginning October 1, 2004.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

By request of the state medicaid agency this letter also serves as an official notice of your requirement to respond with a report of planned corrective actions on the recommendations and deficiencies noted in this report within forty-five (45) days of the date of this letter. Your response should reference the audit control number and be addressed to: Division of Facility Health and Nursing Home Services, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina, 29202-8206. You are also required to simultaneously furnish a copy of your corrective action report to the State Auditor's Office.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Yours very truly,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Ms. Kathleen C. Snider

**MCCORMICK HEALTH CARE CENTER
MCCORMICK, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2004
AC# 3-MHC-F3**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 28, 2006

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with McCormick Health Care Center, for the contract period beginning October 1, 2004, and for the twelve month cost report period ended June 30, 2003, as set forth in the accompanying schedules. The management of McCormick Health Care Center is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.


The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by McCormick Health Care Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Summary of Costs and Total Patient Days, Adjustment Report, Cost of Capital Reimbursement Analysis, and the Comments and Recommendations sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and McCormick Health Care Center dated as of October 1, 2001, as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
September 28, 2006

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", with a stylized flourish at the end.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

MCCORMICK HEALTH CARE CENTER

Computation of Rate Change
For the Contract Period
Beginning October 1, 2004
AC# 3-MHC-F3

	10/01/04- <u>09/30/05</u>
Interim Reimbursement Rate (1)	\$118.67
Adjusted Reimbursement Rate	<u>110.20</u>
Decrease in Reimbursement Rate	\$ <u>8.47</u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated March 1, 2006.

MCCORMICK HEALTH CARE CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2004 Through September 30, 2005
AC# 3-MHC-F3

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$55.51	\$ 70.99	
Dietary		10.66	12.15	
Laundry/Housekeeping/Maintenance		<u>8.60</u>	<u>10.42</u>	
Subtotal	<u>\$6.55</u>	74.77	93.56	\$ 74.77
Administration & Medical Records	<u>\$5.16</u>	<u>9.90</u>	<u>15.06</u>	<u>9.90</u>
Subtotal		84.67	<u>\$108.62</u>	84.67
<u>Costs Not Subject to Standards:</u>				
Utilities		2.61		2.61
Special Services		-		-
Medical Supplies & Oxygen		4.47		4.47
Taxes and Insurance		4.82		4.82
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$96.57</u>		96.57
Inflation Factor (4.70%)				4.54
Cost of Capital				7.34
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				3.38
Cost Incentive				6.55
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(8.18)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$110.20</u>

MCCORMICK HEALTH CARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended June 30, 2003
AC# 3-MHC-F3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$2,616,627	\$ -	\$ 36,000 (4) 1,569 (5) 171,434 (9) 8,049 (9)	\$2,399,575
Dietary	476,814	-	15,856 (9)	460,958
Laundry	89,193	-	5,643 (9)	83,550
Housekeeping	201,437	-	12,749 (9)	188,688
Maintenance	103,386	-	3,963 (9)	99,423
Administration & Medical Records	440,405	-	10,783 (9) 1,546 (9)	428,076
Utilities	118,899	-	6,280 (6)	112,619
Special Services	-	9,500 (10)	9,500 (9)	-
Medical Supplies & Oxygen	262,398	257 (10)	16,836 (7) 52,714 (8)	193,105
Taxes and Insurance	208,297	-	-	208,297
Legal Fees	-	-	-	-

MCCORMICK HEALTH CARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended June 30, 2003
AC# 3-MHC-F3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	323,651	2,005 (1) 161 (2) <u>202 (11)</u>	8,885 (3)	317,134
Subtotal	4,841,107	12,125	361,807	4,491,425
Ancillary	-	8,811 (7)	-	8,811
Nonallowable	528,448	8,885 (3) 36,000 (4) 1,569 (5) 6,280 (6) 8,025 (7) 48,231 (8) <u>239,523 (9)</u>	2,005 (1) 161 (2) 9,757 (10) 202 (11)	864,836
Total Operating Expenses	<u>\$5,369,555</u>	<u>\$369,449</u>	<u>\$373,932</u>	<u>\$5,365,072</u>
Total Patient Days	<u>43,225</u>	<u>-</u>	<u>-</u>	<u>43,225</u>
Total Beds	<u>120</u>			

MCCORMICK HEALTH CARE CENTER
Adjustment Report
Cost Report Period Ended June 30, 2003
AC# 3-MHC-F3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 6,565	
	Fund Balance	49,548	
	Cost of Capital	2,005	
	Accumulated Depreciation		\$56,113
	Nonallowable		2,005
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Cost of Capital	161	
	Nonallowable		161
	To adjust depreciation and amortization expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Fund Balance	173,210	
	Nonallowable	8,885	
	Bond Issuance Cost		173,210
	Cost of Capital		8,885
	To adjust bond issuance cost and related amortization HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
4	Nonallowable	36,000	
	Nursing		36,000
	To adjust nurse consultant fees HIM-15-1, Sections 1000 and 2304		
5	Nonallowable	1,569	
	Nursing		1,569
	To adjust nursing cost allocation HIM-15-1, Sections 1000 and 2304		

MCCORMICK HEALTH CARE CENTER
Adjustment Report
Cost Report Period Ended June 30, 2003
AC# 3-MHC-F3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Utilities	6,280	6,280
	To disallow cable television expense HIM-15-1, Section 2106.1		
7	Ancillary	8,811	
	Nonallowable	8,025	
	Medical Supplies		16,836
	To remove expense related to unliquidated liabilities and reclassify expense to the proper cost center HIM-15-1, Section 2305 DH&HS Expense Crosswalk		
8	Retained Earnings	4,483	
	Nonallowable	48,231	
	Medical Supplies		52,714
	To remove expense related to unliquidated liabilities, reclassify expense to the proper cost center and disallow expense due to lack of documentation HIM-15-1, Sections 2302.1, 2304 and 2305 DH&HS Expense Crosswalk		
9	Nonallowable	239,523	
	Nursing		171,434
	Restorative		8,049
	Dietary		15,856
	Laundry		5,643
	Housekeeping		12,749
	Maintenance		3,963
	Administration		10,783
	Medical Records		1,546
	Special Services		9,500
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

MCCORMICK HEALTH CARE CENTER
Adjustment Report
Cost Report Period Ended June 30, 2003
AC# 3-MHC-F3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Medical Supplies	257	
	Special Services	9,500	
	Nonallowable		9,757
	To adjust special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
11	Cost of Capital	202	
	Nonallowable		202
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$603,255</u>	<u>\$603,255</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

MCCORMICK HEALTH CARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended June 30, 2003
AC# 3-MHC-F3

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.63785</u>	<u>2.63785</u>	<u>2.63785</u>	
Deemed Asset Value (Per Bed)	41,198	41,198	41,198	
Number of Beds	<u>44</u>	<u>44</u>	<u>32</u>	
Deemed Asset Value	1,812,712	1,812,712	1,318,336	
Improvements Since 1981	15,782	15,782	6,159	
Accumulated Depreciation at 6/30/03	<u>(620,757)</u>	<u>(600,724)</u>	<u>(214,287)</u>	
Deemed Depreciated Value	1,207,737	1,227,770	1,110,208	
Market Rate of Return	<u>.0531</u>	<u>.0531</u>	<u>.0531</u>	
Total Annual Return	64,131	65,195	58,952	
Return Applicable to Non-Reimbursable Cost Centers	-	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>-</u>	
Allowable Annual Return	64,131	65,195	58,952	
Depreciation Expense	43,353	43,352	38,371	
Amortization Expense	4,592	4,591	1,814	
Capital Related Income Offsets	(2,646)	(2,646)	(1,925)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	109,430	110,492	97,212	\$317,134
Total Patient Days (Actual)	<u>15,849</u>	<u>15,849</u>	<u>11,527</u>	<u>43,225</u>
Cost of Capital Per Diem	\$ <u>6.90</u>	\$ <u>6.97</u>	\$ <u>8.43</u>	\$ <u>7.34</u>

MCCORMICK HEALTH CARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended June 30, 2003
AC# 3-MHC-F3

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 7.79	\$ N/A	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$11.78</u>	<u>\$6.97</u>	<u>\$8.43</u>
Reimbursable Cost of Capital Per Diem		\$7.34	
Cost of Capital Per Diem		<u>7.34</u>	
Cost of Capital Per Diem Limitation		\$ <u>-</u>	

COMMENTS AND RECOMMENDATIONS

Our agreed-upon procedures identified a condition that we have determined to be subject to correction or improvement. We believe this condition should be brought to your attention.

TRANSACTION CLASSIFICATION

The Provider classified a significant number of transactions to improper accounts and cost centers.

Guidance for the proper classification of transactions is provided in the South Carolina Department of Health and Human Services Medicaid Nursing Home Accounting and Reporting Manual (Expense Crosswalk), the State Plan under Title XIX of the Social Security Act, Medicaid Bulletins and South Carolina Department of Health and Human Services directives.

By failing to classify transactions in accordance with the administering agency's guidelines, the Provider misstated several accounts and cost centers.

We recommend the Provider establish and implement necessary controls to ensure that all transactions are properly classified in accordance with South Carolina Department of Health and Human Services guidelines.

2 copies of this document were published at an estimated printing cost of \$1.44 each, and a total printing cost of \$2.88. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.